

COMMONWEALTH OF VIRGINIA

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VIRGINIA HOUSING COMMISSION

Housing Policy Meeting

October 11, 2006

10:00 A.M.

*House Appropriations Conference Room
Ninth Floor, General Assembly Building*

SUMMARY

Commission members in attendance:

Delegate Terrie L. Suit
Delegate Robert D. Hull
Delegate Daniel W. Marshall, III
Delegate Melanie L. Rapp
Senator Mamie E. Locke
Senator John C. Watkins
Senator Mary Margaret Whipple
Mr. F. Andrew Heatwole
Mr. T. K. Somanath

Special Guest Speakers:

Ms. Susan Dewey
Mr. Bill Ernst

Appointed Housing Policy Advisory Team:

Mr. Bob Adams, Virginia Housing Coalition (VHC)
Mr. Boyd Allison, Virginia Mortgage Bankers Association (VMBA)
Ms. Kelly Harris Braxton, Virginia First Cities Coalition
Ms. Connie Chamberlin, Virginia Housing Coalition (VHC)
Mr. Mark Flynn, Virginia Association of Housing & Community Development Officials (VACHDO)
Mr. Jeff Gore, Virginia Association of Counties (VACO)
Mr. Mark Ingrao, Apartment and Office Building Association (AOBA)
Mr. Vivek Kundra, Office of the Secretary of Commerce and Trade
Mr. Ned Massie, Virginia Association of Realtors (VAR)
Ms. Julie Stanley, Virginia Office of Community Integration (Olmstead)
Mr. Mike Toalson, Homebuilders' Association of Virginia (HBAV)

Delegate Suit, Chairman of the Virginia Housing Commission, called the meeting to order at 10:10 a.m. She explained that this would not be a voting meeting but instead it would be a meeting to hear and process information on the housing policy structure that the VHDA and DHCD staffs had been working to develop. Susan Dewey, executive director of VHDA, presented her report and then team members who had been in the advisory group spoke and shared their perspectives on housing policy.

Susan Dewey as the first speaker began by stating that the VHDA and DHCD staffs had developed a policy framework that is a comprehensive approach to housing policy. The structure was formed from a broad, comprehensive standpoint.

The second speaker was Bill Ernst of DHCD, and he gave a broad overview of the policy issues along with four parallel policy and planning efforts.

1. The Council on Virginia's Future - This Council designs a roadmap, which is a planning and accountability process capable of creating and sustaining a consistent focus on those things that are most vital to Virginia's future. Housing issues have not been an explicit concern within the Council's overall approach. The planning and performance model used by the Council could have relevance in the future as a means for documenting the impact of policies that might be developed relating to Virginia's quality of life.

2. Economic development policy - The Secretary of Commerce and Trade is required to lead a process for developing and implementing a written comprehensive economic development policy for the Commonwealth. Governor Kaine issued an Executive Order that provided a general schedule for completing the Economic Development Strategic Plan. The plan noted how important it was for workers to live within reasonable commuting distances from their places of employment. For the state to remain economically competitive, Virginia must be able to ensure that decent, affordable housing is available to workers across the Commonwealth.

3. Urban Policy Vision and Priorities - Executive Order 32 (2006) establishes an Urban Policy Task Force, which is lead by the Secretary of Commerce and Trade. Issues which the task force considered include, preserving existing affordable housing options, preventing or alleviating the concentration of lower-income housing in older urban centers, and meeting the challenges facing high-growth areas that need to build new infrastructure without adversely affecting housing opportunities.

4. Community Integration Advisory Commission - The Commission monitors the progress of all executive branch state agencies toward community integration of Virginians with disabilities in accordance with applicable state and federal laws. The Olmstead Act identifies housing and its relationship to a variety of supportive services as a resource critical to the full integration of persons with disabilities into communities.

Susan Dewey then gave an overview of the process used to create the report. The key issues are within a framework of five broad policy areas: 1) Residential Land Use and Development, 2) Housing Subsidies, 3) Mortgage Financing, 4) Housing and Environmental Standards, and

5) Coordination of Housing & Community Services. She stated that the report also gives some guiding principles for the creation of a state housing policy.

The first guiding principle is that housing should be a high state, local, and regional priority. State policy should recognize the importance and priority of an adequate housing supply. The state localities should recognize the linkage between housing and other critical needs and priorities. Housing availability and choice should be addressed on a regional basis and state policy should more clearly define responsibility for housing outcomes and create more effective structures for regional and inter-agency cooperation.

The second principle is that all groups should have fair access to quality housing choices. State and local governments have an obligation to fully accommodate the housing needs of all groups, and housing policy should promote the creation and preservation of safe, attractive, and diverse communities.

The third principle is that increased affordability should be a policy priority. The homeless, people with disabilities, seniors on fixed incomes, and other very low-income households require ongoing housing assistance. Land use planning and regulation should address the growing shortage of developable residential land and its impact on housing costs. The high cost of housing throughout Virginia requires increased assistance to close the affordability gap for low- and moderate-income working households.

The fourth principle is that homeownership should build long-term financial security. Expanded access to mortgage credit should be balanced with increased financial literacy and restriction of predatory lending practices.

The fifth principle is that new design and building practices should be encouraged. The state should actively encourage wider acceptance of new residential design and building practices that enhance accessibility and address environmental concerns.

Lastly, the sixth principle is that sound policy depends on information and analysis. The state should develop sufficient organizational capacity to provide ongoing information and analysis for housing policy-making.

Susan Dewey then spoke about setting a housing policy agenda using the summary of the five key issues. Each of the broad policy areas were broken down into a major issue, a desired outcome, and policy arenas. She further laid out specific problems, the unresolved policy questions, and the barriers to resolution each area is facing. The five key issues are as follows:

1. Residential Land Use and Development - The issue is that the supply and geographic distribution of housing is inadequate to meet the needs of Virginia's population and sustain Virginia's long-term economic growth. The desired outcome is a supply of quality housing adequate to meet the needs of citizens of all economic means in locations providing neighborhood choice and access to economic and social opportunities. The policy arenas are local comprehensive planning, land use regulation, regional planning, state transportation and

economic development planning, state and local strategies for urban and rural revitalization, and state agency allocation of housing resources.

2. Housing Subsidies - The issue is that the growing gap between housing costs and incomes is increasing the need for direct and indirect housing subsidies. At the same time, existing communities frequently resist new assisted housing developments, creating the need for a new consensus on successful means for integrating housing serving low-income households into the broader community. The desired outcome is to have sufficient subsidies and improved subsidy models to enable low- and moderate-income households to attain adequate, decent, affordable housing in quality living environments with access to employment and social opportunities. The policy arenas are the appropriation/authorization of direct/indirect public subsidies, public agency allocation/use of public subsidies and enactment of public incentives or regulatory requirements for privately generated direct/indirect housing subsidies.

3. Mortgage Financing - The issue is a growing number of homeowners is at risk of foreclosure due to unwise borrowing choices that result from limited financial literacy and/or deceptive, predatory or discriminatory lending practices. The desired outcome is to have financially literate homebuyers able to make informed borrowing choices with adequate protection from deceptive, predatory, or discriminatory lending and servicing practices. The policy arenas are federal and state regulation of mortgage lending; federal, state and local administration of housing programs; homebuyer education and housing counseling; consumer credit counseling and K-12 financial literacy programs; and fair housing enforcement.

4. Housing and Environmental Standards - The issue is that the marketplace has been constrained in fully responding to a number of public concerns about residential accessibility, energy conservation, safety, and environmental hazards. The desired outcomes are an increased marketplace acceptance of Universal Design concepts and energy conservation and green building practices and cost-effective solutions to safety issues and the remediation of environmental hazards. The policy arenas are the state and local allocation of housing program resources; state enforcement of federal environmental requirements, and statewide uniform building and safety regulations.

5. Coordination of Housing and Community Services - The issue is that very low-income populations require a coordinated array of local services in order to live independently. These services are inadequate in most Virginia communities. The desired outcome is to have enhanced coordination of housing assistance and referrals with other community services that are required by very low-income populations in order to sustain independent living and avoid unwanted and costly institutionalization. The policy arenas are state Olmstead initiatives to provide non-institutional, community living alternatives for people with disabilities; states regulation of and funding for assisted living alternatives; state policy academy to end chronic homelessness; and state initiatives to address prisoner re-entry issues.

Delegate Hull was concerned about developing a statewide housing policy; he worried that the state should not address a lands use issue because he believes the issue is more appropriately addressed at the local level. Delegate Hull also asked which state agencies get involved in

financing. Susan Dewey answered that it was the Fair Housing Commission, VHDA, and the State Corporation Commission.

Susan Dewey was asked by Senator Whipple why housing subsidies and mortgage are separated into two areas when they are both ways of financing. Ms. Dewey answered that mortgage financing deals more with predatory lending and loans as opposed to subsidies. Senator Whipple was concerned about whether predatory lending rises to one of the five policy levels for the state. Ms. Dewey responded that it is up to the Commission to prioritize the issues stated.

Senator Whipple was also concerned with section five. It is her belief that people who are not in the very low income category still have difficulty finding affordable housing, including those persons who are disabled and elderly.

Delegate Hull inquired as to what exactly is the state policy academy that is mentioned in the policy arena of section five. It is a group of interagency representatives who collaborate and are organized by DHCD. Delegate Hull followed up by asking for a clarification about when it states "academy" that it is an interagency collaboration. He was answered in the affirmative and that also that it was started to be addressed as academy because it was a federal initiative to develop policy academies.

Delegate Marshall asked whether there are life cycle costs that have been factored in, such as front and back end costs, like the maintenance of the house. Susan Dewey responded that his question has two elements, both of which are addressed in the report. First is the element of homeowner's education, helping people understand the effects that are associated in buying a house. Second, housing and environmental standard, looking at the energy standards and how costs can be lowered for the utilities. She was further asked by Delegate Marshall whether the report has taken into account how an individual homeowner will pay for the maintenance of the home. It was restated that they try and educate the homeowner. Delegate Marshall again stated that it is not just education but also regulations by VHDA that the house should be sustainable for 10 to 20 years (the life of the house). Delegate Suit responded to him by stating that some of his concerns are answered in the appraisal process.

Delegate Suit was asked by Andrew Heatwole what happens when the high efficiency heat pump breaks? The choice to the homeowner comes down to either fix the heat pump or feed the children. Should homeownership be promoted to someone in that situation? Susan Dewey answered that his concerns would be better addressed through the mortgage financing process.

Delegate Hull stated that he agreed with Delegate Marshall that it is a macro issue and not a micro one. He stated that what they want to do is not just help someone get a home but help them through the life of the home. He stated that the life cycle costs need to be taken into account. Delegate Suit stated that his concerns would be addressed in section four of the report. Delegate Hull said that all of these issues do not fall neatly into one category. Delegate Suit further stated that every state subsidy that is offered offers homeowners education where significant attention is paid to the maintenance of the home. She would like to see consumer education go into the curriculums for state schools. Delegate Hull responded that it is not an education issue. He wants the state to look at the costs. He stated that it may cost more now to

put in a high end product in the home but later on, 10 or 20 years down the road, it would cost less to repair it than to put low- end equipment from the beginning. The response was that some of the programs do have that in place, where they take the life cycle cost into account.

Delegate Suit asked the Advisory Committee members to speak in alphabetical order.

Bob Adams, Housing Commission - He commended the guiding principles and said that the Commission needs to form goals for the housing environment. From the goals will flow legislative action. He urged the commission to resist temptation to go directly to problem solving. He said that there is a better chance of solving the problem if we do it with a broader comprehensive framework. Finally, housing is not an isolated issue; it needs to be considered along side other issues.

Delegate Hull wanted all the speakers to address one question. "Do we need a state housing policy?"

Bob Adams agreed that there is a need for a state housing policy because housing cannot be considered in isolation of other issues.

Mr. Heatwole stated that by developing state housing policy, it may help the General Assembly in areas that then may help local government, and that is a reason for wanting and having a state housing policy.

Boyd Allison, Virginia Mortgage Bankers Association (VMBA) - The Virginia Housing Development Authority has been a leader in creating innovative products that have been used in the private sector and the private sector has followed in their mortgage portfolio. Recently, it has become a business of having an investor so that one can rent to own. Here the rent-to-own person fronts all the closing costs and the investor does 100% financing. Six months to a year later, the rent-to-own person pays 20% over the price the investor purchased the property for.

Kelly Harris Braxton, Executive Director for Virginia First Cities Coalition - The critical link between housing and other priorities (economic, education, health and human services, etc.) needs to be recognized in order to encourage healthy communities. She agrees that a state housing policy is needed because sometimes localities can be short-sighted as they plan and do not address the problem regionally.

Connie Chamberlin, Virginia Housing Coalition (VHC) stated that there is a need to focus on a broad framework. She agreed that there is a need for a state housing policy because there needs to be a roadmap to know where are we going and it needs to be codified. The US Census housing information showed that between 2000 and 2005 median homeowner costs increased by 25%, median renter costs increased by 25%, and income increased only by 16%. There was a statewide increase in the number of homeowners paying more than 30% of their income for housing. Thirty-one percent of homeowners are paying more than 30% of their income to housing, and that is generally considered to be affordable. Forty-two percent of renters are paying more than 30% of their incomes for housing.

Are we standing in the way of local initiative? Local governments need to be given permission to find ways to work productively. It is important to make the housing sustainable even if the upfront cost is higher.

Mark Flynn, Virginia Association of Housing and Community Development Officials (VACHDO), said that guiding principles should include affordable housing as a part of anything positive that individuals consider doing. Housing cannot be thought of in isolation. Market forces get addressed on page 4 of tab 3 under barriers to resolution.

Delegate Suit said there may be a "push back" from local governments. Developers are applying for tax credit financing from VHDA and are trying to get letters from local governments to help them get the financing. They are finding that there is resistance from local governments because they don't want high density, low-income housing in their jurisdictions. She asked Mr. Flynn what he is hearing from local governments.

Mark Flynn said he has heard a range of responses from Arlington, where low-density is an issue to Goochland, which does not have the facilities to meet the needs of lower income individuals.

Delegate Suit stated that there are a lot of challenges in rezoning for higher density housing. Rezoning has to be offered for age-restrictive housing or the housing will only attract older individuals because localities don't want to bear the cost of educating additional children who may live there. To get affordable housing, you need to have higher density and local governments don't want higher density because of the associated costs.

Flynn responded that the issue is, "How do we pay for the education of the additional children?" Funding, he said, comes from the taxpayer, no matter how it is funneled.

Andrew Heatwole wanted to know what the costs of services are and what burden is being put on local governments, because individuals pay a lot of real estate taxes, etc.

Delegate Hull stated that there is a lot of broad general authority given to counties in the Code. His concern is about forcing a county to conform with the region. He said that regional cooperation cannot be forced.

Andy Friedman stated that a policy is necessary as clear guidelines and not mandates. Goals need to be established so that we can tell the public that we are meeting our goals and how we are contributing to the public good. Good data needs to be collected, even on a statewide basis.

Senator Whipple agreed that establishing goals is important and gave an example in Arlington County which worked when they had established goals.

Andrew Friedman was asked to elaborate on the quality of construction in Virginia Beach. Friedman said that they define materials for contractors that they use low maintenance, high quality materials that resist weathering so the owner doesn't need to worry about maintenance.

Jeff Gore, Virginia Association of Counties (VACO) - He stated that a one-size-fits-all policy does not work. But we can identify a framework and then figure out how to get to the finish line with the help of tools. Can we have incentives for the localities to work together?

Vivek Kundra, Office of the Secretary of Commerce and Trade - Virginia is ranked number one in Forbes Magazine for business. The area for concern is housing. Two deals have been lost because housing for workforces is too expensive. How do you make sure that you don't price out the intellectual capital that you are developing? We need to make sure that the intellectual capital that we are developing has the freedom to move around because that is our currency as we compete. We need to retain the companies that are here and attract new ones.

Delegate Hull asked whether North Carolina has a housing policy to attract new business since North Carolina is one of the Virginia's competitors. Mr. Kundra answered that he was unaware of it but will get back to him.

T.K Somanath asked if there is some way to communicate so housing issues and economic and urban development are commingled.

Mark Ingrao, Apartment and Office Building Association (AOBA)

First, look at inhibitors to those who provide affordable housing. Sometimes there are more requirements to Section 8 housing than there are benefits. Second, ensure that we look at the cost of the green implementation standards to affordable housing, some are more costly. Ownership versus rent? Affordable housing is rental. Local governments aren't making affordable housing a fiscal priority; it is not in their budgets. People are being artificially qualified for mortgages (zero down, interest-only loans) and they get into the house and after 18 months or so, they can't pay for it. At that point their credit has gone bad and they can't even qualify to rent.

Julie Stanley, Virginia Office of Community Integration (Olmstead) - There is a need to look at affordability and accessibility in terms of housing needs of the disabled. A lot of disabled individuals/elderly are also low income and rely on social security income which is insufficient to cover the high cost of housing in Virginia. Historically, Virginia has relied heavily on institutions (nursing homes and assisted living facilities) to serve this population.

Mike Toalson, Homebuilders Association of Virginia (HBAV) - We need to address the issue of affordability because the cost of housing is increasing and there is a need for subsidies. Housing needs to be looked at from the broader perspective because of its importance to family stability.

Delegate Suit concluded the meeting by stating that the guiding principles that were discussed today would be the policy document from which the Commission could decide to adopt, amend, or postpone action at the November meeting in Norfolk.

The meeting was adjourned at 2:15 p.m.